

Case 2:00-cv-00684-DSC Document 131-2 Filed 07/11/2005 Page 1 of 1

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Transcription of Shorthand Notes of Carol Gordon - Audit Committee,
October 10, 1994

NOTE from transcriptionist:

() means I did not write anything in that spot at the meeting.

_____ means I cannot read it now.

_____ ? _____ means I do not know who said it.

Meeting began 10:00 a.m.

I. A. Summary of discussions. Approved.

I. B. Financial Statements

_____ ? Will highlight the statements. The audit went very well. In mid-year at the January meeting of the Finance Committee, most of the organizations were okay with budget; second half of the year most of the organizations were losing earnings. Page 4, Consolidated Statement of Revenue and Expenses. Revenue (), loss 12 ½. Bottom line 14 million. Budget was 9 ½ million. With the affiliation at Hahnemann, we have left Hahnemann statements from an operating basis outside the AHERF organization. If you go back to the prior page, we did consolidate Hahnemann into AHERF so that we can, going forward, analyze AHERF performance including Hahnemann. With the addition of Hahnemann into the balance sheet, there is net equity of \$520 million. During the year, we had several lines of credit that we attempted to pay down, and this year we are down to 12.8 from 23. Had considerable effort to shorten receivables, liquidate receivables, and pay down debt. We will continue with this and reduce our overall cost of borrowing.

Barnes: What is our planned loss from operations this year?

McConnell: Total budget bottom line for the system was \$3.5 million. Total operating gains were close to \$20 million. We are in the process of completing the management budget. We knew when we prepared the budget there were several unknowns that were excluded from the revenue budget. Expect to have substantially better year than the \$3.5 million budget.

Abdelhak: I think part of the difficulty was adjusting the operating results. We are very labor intensive. Look at Page 29, there were a number of items charged to expenses that were really restructuring costs. \$4.5 million charged to expenses. \$1.8 million

additional charges for writing down a joint venture activity. This should reflect a different operating result.

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Page 33, Finance Committee, Consolidating Revenue and Expenses. We have an edited number from operations, AHERF and DHG. Each was reporting a positive bottom line. We are using AHERF and DHG to support the other organizations, which is its purpose. Should we reduce that level of support? We are attempting to gauge it more appropriately and improve their results. I believe we have seen a \$50 million reduction in revenue, not just limited to us. We have effected substantial adjustments in expenses. Operating targets are established for each entity, and improvement from each organization is required in order to receive any incentive compensation.

Cook: David, did you say the 95 AHERF projected budget will show a \$3 million loss?

McConnell: No, \$3 ½ million profit on the bottom bottom line. Things look better now than when we approved the budget. Page 22, financial statement book, footnote 16, gives you a look at the impact of Hahnemann on the balance sheet of AHERF. Hahnemann shows you what it did to the AHERF balance sheet. When we had Audit Committee in April, this Committee approved audit workplan for Hahnemann even though it was not legally part of the organization. That is why we are showing Hahnemann audit separately. The audit we are considering now is for AHERF only. Behind Tab G, we have letters from Coopers & Lybrand that we meet all covenants for the debt on all groups.

Buettner: From my perspective, I would echo the points Sherif made about the profitability of the various units. From our perspective, there are two areas in preparing the financial statements where management must take great care in establishing the referrals, patient receivables, self insurance funds. We spent a lot of time there. We feel their estimates are reasonable and conservative. Those are significant accounting estimates. We feel very comfortable with their assumptions.

CG Note: Moved B and C.

I. C.

McConnell: All organizations have their No Material Weakness, which Coopers & Lybrand provides because we must provide them with the cost reports.

I. D.

_____ ?

Page 16 of financial statement book. Please recognize that several events were occurring concurrently. In November, boards voted for affiliation. At that time, AHERF people moved in and took responsibility. At the same time, Diane and her staff and Coopers & Lybrand staff moved in for the review. Difficult to separate Due Diligence from management review. We found that Hahnemann's bottom line was weak. Page 16 summarizes the bottom line hits. Recognize that some of these are cash and some not cash. What we wanted to do was take Hahnemann financial statements, which were aggressive, and make them conservative to match AHERF. What we did was, while the management team developed plans to reduce costs, we booked about \$15 million for termination costs. In addition, many of the reserves for insurance were light, so we increased the balance sheet by \$10.5 million. There were about \$35 million restructuring and consolidation costs which were added to the Hahnemann financial statements.

Hilton: Talked about the split of the organization.

McConnell: We are in the process of getting all final approvals from the state.

Abdelhak: Budget loss from the academic side is \$5 million. That is MCP and this \$21 million loss, so we have done a fair amount of restructuring within the University, and I suspect that will be the area we need to concentrate on. Mr. Cook can comment on the budget issues that confront the university.

Cook: One of the things we looked at was teacher/pupil ratio at MCP/Hahnemann compared to national averages. Our opinion was that although it was sometimes out of line with the national average, the restructuring will bring it back into line. There is no single model to compare to.

McConnell: The effect of this type of hit - Hahnemann did covenants - if their loss exceeded \$10.2 million, that triggered all the other covenants. So we had issues on the debt side. We have written off IS conversions, etc. We had to get waivers on all of the debt. MBIA has given us the waivers. Other matters are minor. One of the requirements was that we fund the debt service reserve fund for two years. We talk with the bondholders every six months. With a \$45 million bottom line loss, I think we have come out of it as well as we could have. There were so many changes during the year, that helped with MBIA.

Abdelhak: I want to assure you this was by design. I wanted to leave behind before we consolidated everything we could. David feels challenge was to find out what MBIA's tolerance for a bottom line loss. He determined it was \$45 million. I think he and his staff did a tremendous job. I appreciate all dealing with that.

This is by plan by design. We did it before with United, and it is still in clean up form.

CG Note: Talked about discussions with MBIA. Have spoken with Trustee. Spent time with authority.

Snyder: Asked Bill Buettner if he is satisfied with the way it was handled.

Buettner: Yes, we are very comfortable with it. Key point is that a number of these adjustments were made to put Hahnemann records on an even keel with AHERF reserves for insurance, third party reserves, adjustments necessary for AHERF accounting principles. This is the approach you have taken as opposed to the approach Hahnemann may have taken. Not saying what Hahnemann did was incorrect, but there is always a high end and low end of any estimate.

Abdelhak: It was still within the range.

Wynstra: Talked about malpractice cases and where Hahnemann carried their reserves (low).

Barnes: Bottom line is that we have cleaned up Hahnemann statements before incorporating them into our numbers.

I. E. Report on Internal Controls

McConnell: This is the No Material Weaknesses letter.

Cg Note: Approval on D and E. Moved and seconded.

II. A.

McConnell: Little different than in the past. We have presented all the findings regarding the entity. At each entity, we will take the management letter for that specific board. Most of the system wide observations are in the corporate area. You have consolidated Finance, Human Resources, Information Services, Legal. Delaware Valley had very specific issues with a couple of hospitals. Overall: In the past couple of years, all prior year comments were concluded - these comments this year were helpful, nothing terrible or surprising. Bill should give us his overview of the control environment of AHERF.

Buettner: As I indicated earlier, we did not identify any material weaknesses. Observations made are to help enhance things going forward. Dan will review most important.

- Cancelmi: Seconded the comment about the improvement of controls over the years. We have noted significant improvement throughout the system. The number of observations in this letter are rather small when you look at the size of the area. Pages 23, 24 - briefly point out two items that deal with the self-insurance area. It is extremely complex. Pages 27-31 deal with the results of our review of AHERF Information Services and related environment. We have noted sizable improvement in the policies and procedures that are in place. There has been visible progress in coordinating everything. This information provides an overview of overall observations. There still needs to be some further enhancement from a security standpoint, but nothing significant.
- Snyder: How do you view our Information Services as compared to others?
- Buettner: Yes, you are close to the state of the art. You are No. 1 with our other clients in Pittsburgh.
- Hilton: Asked about disaster plan.
- Barnes: Asked about modern low cost operating systems. Do we have this? As a result of the merger?
- Abdelhak: Before he speaks, you should know the decisions driving this: We decided we wanted to build a framework on which we could centralize functions such as billing, payables, accounting. Also decided we were not going to be in the programming business and would buy software off the shelf. We always wanted capacity to absorb other institutions, so we always wanted to have enough size. Want to make it as invisible as possible. We have over 7,000 terminals within our system, all of which access our Data Center.
- Buettner: When we look at the controls, we go through a cost/benefit analysis. The Information Center you have is state of the art and has the capability of absorbing anyone you want to bring into the system. We will not have a capacity problem.
- CG note: Talked about the consolidations made in the Information Services area and resultant cost savings.
- Cook: Agree with strategy. Every meeting we talk about security. My concern is that the Delaware Valley institutions do not have the same degree of security as you have in Pittsburgh. Management response is that you will have that by December. Could this Committee be notified by January that the process has been

completed?

_____ ? Yes, we will do that.

CG Note: Cook mentioned Chief Information Officer in Delaware Valley left us.

Abdelhak: No, there is only one CIO (he explained it). We are restructuring. Given the experience we had with former sstructure, I think it will serve us better in the future. That person doesn't play such a pivotal role.

Snyder: Calvin, have you been able to start on closer controls? In terms of physical inventory, it was inconsistent with past practices.

Thomas: You never get perfect in this area. The important thing is that they be identified and solve them - then you will get different problems to solve.

Buettner: Tremendous strides in security area since 88/89.

II. B.

McConnell: We have a more expansive letter on Hahnemann. I would say that these are very helpful. Most of these will be taken care of through consolidation of activities. I think it was helpful - Bill, do you have a summary?

Cancelmi: In the Information Services area, we looked closely at the Hahnemann environment. The affiliation is transpiring according to plan. There are some minor security concerns that should be focused on, nothing significant. The balance of comments relate to various internal control issues but are not significant.

McConnell: In Hahnemann Finance - when we went there, the CFO position was vacant. Early on, I let them know that function would be consolidated. All senior people left. Now it is much easier to fix the problems.

Hilton: Felt the response of management was very positive. Felt the AHERF systems are such that you are comfortable that when everyone lines up, we will be in excellent shape.

II. C.

Buettner: There are two letters - Pages 49, 52. Under the standards of our profession, we

must summarize certain key factors. There is a requirement that we sit down with the Audit Committee and management to outline our responsibilities. We did. There were no audit adjustments. No disagreement with management.

II. D.

Wynstra: We engaged a number of outside consultants to assist us in the management review. We were gratified to find that there were a lot of little things to be brought in compliance with AHERF, but nothing significant. We have implemented many of the recommendations coming from due diligence. We are very far along with implementing the primary recommendations.

II. E.

Schrecengost: Internal Audit continues to observe that the organizations set a high degree of compliance with the control procedures for large cash disbursements. Our audit is basically to see that control procedures are functioning as intended. This year, we noted significant improvement on electronic funds transfers. We have outstanding controls, both repetitive transfers and non-repetitive. Results were so good this year we do not need to extend our scope any further.

Abdelhak: We wanted to verify to the Boards that there were no exceptions. This will be adopted at Hahnemann.

Cook: One instance in Pittsburgh where a check got through without the second signature. If that had not been for valid business, would the bank be responsible?

McConnell: Yes - our policy is that if the check is not for valid business, the bank will be liable.

Abdelhak: In some instances, there are oversights by the bank for the authorized signators.

Schrecengost: Banks have said that developing control systems to assure validity might be more costly than making the check good.

Hernandez: How many people can make verbal transfers?

Schrecengost: There are people who can authorize the repetitive transfer, i.e., taxes.

II. F.

Schrecengost: There is nothing as far as a project goes that specifically needs to be highlighted. You have copies of all reports issued over the six month period. Need to bring three things to light. We have added three qualified individuals to our staff: EDP

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auditor; lady from Patient Accounting function in Delaware Valley - first attorney on Internal Audit staff - has been transferred to us because her qualifications and experience and her interests are in helping us with compliance, Sue Burgess. We are supporting Hahnemann to a great degree. We are getting a lot of requests from management to look at specific areas.

Barnes: Did you get any Internal Audit auditors from Hahnemann?

Schrecengost: No, there were none.

McConnell: I think it is important that when this committee approved the audit plan last year, this merger was not known. Diane has done a lot of work there with due diligence and also in fixing things, i.e., tax matters that she has handled on a day-to-day basis. That is helpful, and I am gratified that the main audit shop hasn't faltered.

Snyder: Asked about cooperation.

Barnes: Any questions?

Meeting adjourned, 11:12 p.m.

cg

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Transcription date: 2-18-02

EXHIBIT 2

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Transcription of Shorthand Notes of Carol Gordon - Audit Committee,
April 3, 1995

NOTE from transcriptionist:

() means I did not write anything in that spot at the meeting.
_____ means I cannot read it now.
_____ ? _____ means I do not know who said it.

Meeting began 10:30 a.m.

I. A. Minutes approved.

I. B.

McConnell: Plan is the result of significant effort on the part of Coopers & Lybrand. Our responsibility to keep them apprised of major initiatives. Bill is up to speed with what we are doing. Plan has been presented to senior management team. Bill will present the plan.

Buettner: Emphasize four-five points. Engagement team: Staffing - wanted to make sure we had people experienced in the industry and familiar with the Allegheny system. Page 19, org chart. Believe we have achieved that balance. I will serve as the engagement partner. Howard, concurring partner. (Talked about others): Two managers assigned this year, both from Pittsburgh. Mark Kirstein, lead manager, Frank Simpkins, senior manager in academic area. Believe we have a team with a blend of experience. Plan was developed: a number of items that occurred that changed our approach. (1) realignment in Delaware Valley. Page 24 - List of report requirements that runs for four pages. From perspective of changes, there have been certain rearrangements between MCP and Hahnemann. Financial statement audits will be required for MCPHUHS and MCP for bond indenture. Page 25, MCPHU loan and security agreement. From a MIS perspective, the system continues to enhance operating systems. Certain conversions have occurred in 95. They will look at conversions and may test in detail or rely on Internal Audit group. From management perspective, responsibilities moved from Delaware Valley to Pittsburgh, and we will adjust our audit text as necessary. Wanted to make sure supervisory control continues to provide the type of review that should be performed on a regular basis. Will rely on work of Internal Audit. In terms of timing, see Page 22 - Summary of timeline; hope to begin preliminary work next Monday in the Delaware Valley. Year end work will start August 7, and hope to have clearance on financial

statements by September 8. As we have said in the past, in the development of our plan, we have looked at areas that concern greater risk than normal areas. Brief summary of risk analysis, Page 31, with time allocation. To clarify item as higher risk does not mean there are problems but the nature of the item means it might have a greater risk. Areas identified as high risk are there because of the nature of the changes during the year. Approach is on page 33 and continues through Page 41. Would answer any questions. Will continue to look at MIS area and financial controls because of the move. Page 43 is summary of reporting requirements; fees - Pages 43-48 with estimate of fees. Included in fees is time necessary to test system as it is converted. Any questions?

Abdelhak: In terms of our agreement with Independence Blue Cross, are we supposed to provide the certification or information through our audits?

McConnell: We provide a letter of compliance, which is part of routine audit. We are entering into agreement with the police and fire to take over their entire facility, and we need to give U. S. Health Care a letter from the auditors because they would pay half of the shortfall. We suggested - Page 31 - that the cost report be part of what we consider high risk.

Buettner: That is included in the third party settlements, which would include cost reports and negotiations with managed care. (Discussion of cost report and explanation ensued).

Abdelhak: David, explain what you mean by aggressive.

McConnell: Ten years ago, Medicare came out with ruling on malpractice, saying they would pay on a pro rata share of losses for your malpractice premium. Filed cost report old way so we could appeal, but booked it at the current system - when it went through the courts and we won, we had positive revenue. (Talked about where auditors will work and how much time spent in Philadelphia).

Resolution moved and seconded.

I. C. Internal Audit Workplans

McConnell: Page 50. Last year, interesting year for Internal Audit. With Hahnemann being so new, we underestimated some special work needed at Hahnemann. Have listed some areas that need covered. As we went through the due diligence, we found some weaknesses. Other potential _____ or _____ occurred during the year that required work by Internal Audit. If there are questions, I will answer. I

believe that Internal Audit is viewed as an asset to management. Page 52 speaks to risk assessment - presents where she and staff interview management within the organization - evaluate the validity of the risk- that then floats to the top a set of priorities that start on Page 54 - have identified for Pittsburgh and Philadelphia organizations. Page 54 lists 96 Internal Audit workplan; Page 55 is the 97 plan.

Barnes: In regard to 96 and 97 audit plans, what is not being reviewed in these years? Is there some way we can look at the past plans?

Buettner: A number of larger clients look at areas and rate them 1, 2, 3. If it is 1, they might look at it annually; 3 might be every 3-4 years. In terms of report, they take an overall plan and have the areas rated so that each member will know what is "1". If there is a change in a particular area, that would be highlighted for the committee.

Barnes: Could we get a report showing the list of leftover items, i.e., from 94 to 95 - wants to know what we are not doing and should be doing. With this kind of listing, it would be helpful.

McConnell: The way Page 56 is developed is from that type of report. At the next meeting, we can share the ranking system from prior years.

Abdelhak: There is no question that David points out what she didn't do - Page 50 - talks about what was in the plan and was not done and gives reason - information is here, and we will reformat it for you.

Abdelhak: Are there redundancies between what Coopers & Lybrand does and what Internal Audit does?

McConnell: No, explains what each is looking at. (Talked about areas that are looked at).

McConnell: We could triple the staff.

Cook: One area we are always looking at is IS security. Thought we asked for report from IS.

McConnell: Yes, we have sent report by mail to Audit committee. All issues have been addressed. Continue to be issues with security that we continue to work on routinely. Hahnemann had no IS security. To go from where they were to say we have great security - I can't do that - it is a four-five year process. We have decided to convert all systems to come to Pittsburgh.

Cook: Maybe that is something we can track. I get very concerned about a large computer system for an organization our size.

Abdelhak: The key is to limit the number of people who can get _____.

Buettner: From financial perspective, we have addressed our concerns with management and security concerns are addressed.

McConnell: Page 56, 57 - High priority audits for Delaware Valley, same as Pittsburgh. Diane will spend less time in audit - is putting together task force that relates to billing to make sure we are in high degree of compliance. Any questions on the plan?

Schenck: Talked about size of staff. Do you have enough staff? How do we get a feel for the balance?

McConnell: (1) I look at staff. (2) I give my thinking to you. You can see what we have dropped off completely - and we will discuss it. We have built staff up over time. Control environment in general is good. I don't feel we are understaffed. We are not putting ourselves at risk by holding anything off.

Resolution moved and seconded.

I. D. Budget

McConnell: Years ago in Philadelphia, Internal Audit developed a charge audit process. Developed in Pittsburgh in 1982. Now reports to Internal Audit Department. I wanted the charge audit process in Internal Audit so that we could see where errors are. No additions in staff planned. Budget is inflationary, and that is the only increase. (Talked about the staff. They are very professional).

Cook: Talked about Pages 59, 60 with increases in the Internal Audit staffing budget. 20% increase approved budget to proposed budget.

McConnell: Two issues: (1) Part of the increase was because of transfers within my area. (2) Had to make compensation adjustments during the year to hold the people.

Abdelhak: I have reviewed and approved those adjustments; felt it was important adjustment. EDP Auditor is the most difficult area.

Cook: Are you comfortable that we have the proper compensation levels to retain people?

McConnell: Yes, we are now.

McConnell: Page 62 - review spread of cost - travel between two cities is for EDP Auditor.

Resolution moved and seconded.

Tab 5

Resolution for changing internal control process for large check disbursements.
Dave gave background.

McConnell: As I move accounting staff to Pittsburgh, it has become clear that dual signatures are a problem with people traveling. (Talked about Freedom to Act Guidelines). Have many controls. Suggest that Audit Committee support management for one manual signature with one facsimile, and the manual is different than facsimile. Do not believe we are giving up any control. This process does not alleviate bank's responsibility.

Cook: Which are the facsimile signatures?

McConnell: For the checks, it is board officers. Facsimile signature for AHERF will probably be Mike Martin and in most cases I will be manual signature (for control).

Moved and seconded.

Tab 7

McConnell: Same comment as that made about the charter. Mr. Thomas has often made suggestions. This is the way it stands now - if you have any changes now or in the future, please advise. Just want to review so that you know what we are doing and why.

Tab 8

McConnell: Profile of the audit staff. They are highly regarded professionally. RN's review the medical records.

Tab 9

Barnes: Any questions or comments?

McConnell: Reports are thoroughly distributed throughout the ranks of management. Sherif, Nancy, and I review all audit reports. If you have any specific questions, I will be glad to answer. (Talked about defalcation at Hahnemann). We had situation where Department Manager was misusing expense reporting process. Amounted to about \$2,000 in total. Employee is being dealt with this week.

Wynstra: Employee will be terminated. Immediate supervisor was taking different approach; Dr. Ross is final say.

Cook: What about handling cash receipts. Is actual collection of cash and getting it to the bank a problem?

Abdelhak: It is fixed now.

McConnell: We had a cashier in Pittsburgh who changed cash register tape five days in a row. We fired her.

Cook: Asked whether two CEOs in the Delaware Valley consider audit staff as a resource.

Bland: Yes. We have a meeting; review risks, etc.

Barnes: Executive session?

Buettner: No need.

McConnell: No need.

Committee: No need.

Meeting adjourned 11:48 a.m.

cg
wp:03121
Transcription date: 3-12-2002

EXHIBIT 3

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DENNISON STATIONERY PRODUCTS COMPANY
FRAMINGHAM, MA 01701
Made in USA

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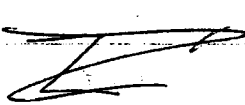
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Transcription of Shorthand Notes of Carol Gordon - Audit Committee,
October 16, 1995

NOTE from transcriptionist:

() means I did not write anything in that spot at the meeting.
 means I cannot read it now.
 ? means I do not know who said it.

Meeting began 12:00 noon.

IV. A.

- McConnell: This year was the first time that we consolidated Accounts Payable, and the audit was performed with the consolidation happening concurrently. The majority of Coopers & Lybrand's work and staff work was done in Pittsburgh. It went smoothly, more smoothly. Staff took a fresh look at how we were doing things.
- Buettner: The letter issued is a by-product of our audit and deals with control observations, none of which are material control weaknesses of the professional standards. They are observations. Three areas: Receivables, Information Services, General Observations. In Receivables area, this is an overview of what has happened in the last year, particularly in the Delaware Valley. We do not feel uncomfortable with the controls and with the process that management is following to achieve the objective of getting a bill out on a timely basis. Have certain observations in terms of receivables in the Delaware Valley. Again, items to consider in terms of streamlining the organization. Have general comments on items that are systems derived.
- McConnell: Regarding receivables, early in the calendar year (January), we formalized our plan to move the billing staff to Pittsburgh. Millions of dollars of savings. Planning process leaked to staff, so we notified them then. Had initiated intent to move in October/November. Moved July 1. Pittsburgh receivables remained in very good shape. Same people managed receivables in both cities. Three different computer systems in Philadelphia. Focused on moving to Pittsburgh. Systems conversions are moving along. Will be converting computers in January/February. Receivables in Philadelphia grew to 75 days, which is average across the country. We were down last year on a consolidated basis to 45 days. Have made very good progress in Pittsburgh. Didn't find anything that was flawed during the conversion.

Buettner: Control environment is sound. We thought we found a good company to do that, but they didn't perform. We have hired hundreds of people in Pittsburgh. We are in the best shape in terms of building staff. We are doing focused reviews in each department.

Barnes: Are the receivables down in September?

McConnell: Not down, but with staffing changes, we are holding the line. Substantive progress over the next six months.

Buettner: Second section of their letter: Management Information Services Department. Four principal areas: (listed them). Comments, pages 29-32 all deal with security issues. We believe that the responses that management gave are fine. Weaknesses are not significant. Responses will remedy these issues. Letter on pages 34-38, virtually all comments dealing with Accounts Payable and fixed asset accounting. Most significant is in area of fixed assets - trying to generate in-house system.

Cook: Asked about security issues. Is it possible (page 36) to have dates in the management response of when these things will occur? Do we have something in the Information Services staff - primarily responsible for system security?

McConnell: If he is, we can put dates in there. Until now, we have noted previous items as carryovers. These are new comments.

_____ Is Joe Dionisio still Chief Information Officer and Tony's Chief Financial Officer - is that appropriate? Thinks both jobs require dedicated resource.

_____ Talked about department restructuring (Information Services). We are better off with the old structure.

Snyder: Every day you read that most secure computer systems have been cracked. Not sure how far we have gone.

McConnell: We have done many things. Security always is a concern. Core systems have good security package, and we test them routinely. Lot of software is purchased from outside. Vendors have good security products. Internal Audit checks it a lot. Where we come up short is distributed systems. Have new recommendation as to how we will involve management teams to provide security over distributed systems.

Abdelhak: I hired Joe Dionisio - not because he knew anything about Information Services, but because he was knowledgeable in the Health Care arena, had client orientation, and was a Partner at Price Waterhouse. Also had managed large, complex projects successfully and had managed many professionals in his career. We defined what we wanted, and he employed the people and, for the most part, we have a very strong set of individuals. When the opening for Chief Financial Officer came, I transferred business responsibility to David. He is doing a good job in both instances. Yes, it is demanding, but so is every job at Allegheny.

McConnell: Comments we have had are important, but not earth-shattering. With the type of control issues, I think the staff has done a good job.

Buettner: David has tried to make that point - these comments are not significant weaknesses. Always have security issues of some sort.

Abdelhak: There is only so much you can do in the final analysis because we rely on individuals. Sometimes someone lets you down.

McConnell: Hope you have enough checks and balances in place.

Barnes: We have talked for many years about implementing new consolidated systems. Will we be there by the end of this fiscal year?

Abdelhak: We are talking about applications. I think there are certain applications we have committed to: Payroll, Accounts Payable, Benefits. Other applications will be decided on by the people who pay for them. Many other applications will have to be agreed to. Payroll done, Accounts Payable done, Receivables by June, July. By the middle of the summer, we will be up and running on the core systems. I am behind that - that is it. When enhancements have to be decided on, there isn't the same interest among the various entities to finance some of these enhancements, they are expensive.

IV. B.

Buettner: Page 40 - Letter I am required to review with Audit Committee on annual basis. Letter broken up into several areas. We reviewed all significant accounting policies. They are in compliance with all standards. Reviewed accounting estimates. Principal areas are receivables, etc. Comfortable with methodology. No material weaknesses. We changed our approach.

Abdelhak: Is this giving you the protection you need for the firm?